

Message Text

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ACTION EB-07

INFO OCT-01 AF-08 EUR-12 NEA-10 ISO-00 ERDA-05 AID-05
CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01
H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
/117 W

----- 105504 /44

R 231150Z DEC 76
FM AMEMBASSY ALGIERS
TO SECSTATE WASHDC 5648
INFO AMEMBASSY JIDDA
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY TEHRAN
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA
USMISSION OECD PARIS

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E.O. 11652: N/A
TAGS: EFIN, ENRG, OPEC, AG
SUBJECT: OIL PRICES

1. WE DISCUSSED OUTCOME OF DOHA OPEC MEETING WITH BAYOU,
SONATRACH'S ACTING CHIEF OF EXTERNAL MARKETING DECEMBER 21.

2. BAYOU CLAIMED ALGERIANS NOT CONCERNED ABOUT EFFECTS
OF TWO-PRICE SYSTEM ON PRICE AND PRODUCTION LEVELS OF
ALGERIA'S OIL. HE SAID ALGERIA DOES NOT HAVE A STATE
SALES PRICE, AND PRICES GIVEN AS SUCH IN PETROLEUM
ECONOMIST AND SIMILAR PUBLICATIONS ARE GUESSES. ALGERIA
TAKES THE PRICE OF MARKER CRUDE, FORMERLY \$11.51 AND NOW
TO BECOME \$12.70, AND ADDS DIFFERENTIALS FOR LOCATION,
LOW SULPHUR AND GRAVITY. THE RESULT IS A NEGOTIATED
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PRICE THAT IS NOT PUBLISHED AND THAT BOTH BUYER AND SELLER
ARE OBLIGED BY CONTRACT TO KEEP SECRET.

3. WE POINTED OUT THAT INDUSTRY PRESS REPORTS
DIFFERENTIALS OF BETWEEN \$1.49 AND \$1.59 FOR ALGERIAN
BLEND OVER ARABIAN LIGHT AND THAT THIS SAME DIFFERENTIAL

OVER THE NEW BASE PRICE OF \$12.70 WOULD GIVE AN ALGERIAN PRICE OF \$14.19 TO 14.29. BAYOU DID NOT DISAGREE WITH THESE FIGURES BUT CONTENDED THAT THE FINAL PRICE OF ALGERIAN OIL WILL DEPEND ON THE MARKET. WITHIN THIS CONTEXT, HE SAID, HOWEVER, THAT QUALITY AND LOCATION CONSIDERATIONS WERE SO FAVORABLE FOR ALGERIA THAT HE HAD NO WORRY ABOUT SELLING AS MUCH AS THE COUNTRY CAN PRODUCE AT THE NEW PRICE SET BY THE OPEC MAJORITY, PLUS DIFFERENTIAL. HE ALSO CLAIMED THAT SURPLUS SAUDI CAPACITY WAS ALL IN HEAVY CRUDE AND EVEN A SUBSTANTIAL INCREASE IN SAUDI PRODUCTION (OF HEAVY CRUDE) WOULD HAVE LITTLE EFFECT ON ALGERIA'S MARKET. (WE WOULD WELCOME DEPARTMENT'S OR JIDDA'S COMMENT ON ASSERTION THAT SAUDI SURPLUS CAPACITY IS IN HEAVY CRUDE.)

4. BAYOU BRUSHED ASIDE OUR EFFORTS TO QUESTION HIM MORE CLOSELY ON THE DIFFERENTIALS AND ON THE ATTITUDE THE OTHER MEMBERS OF THE OPEC MAJORITY MIGHT TAKE IF ALGERIA SELLS ALL OF ITS PRODUCTION AT SECRET PRICES WHILE OTHER PRODUCERS ARE HAVING TO CUT BACK PRODUCTION.

5. COMMENT: THE DIFFERENTIAL QUESTION WILL BE CRUCIAL TO ANY ASSESSMENT OF ALGERIA'S RESPECT OF THE NEW BASE PRICE OF \$12.70. BY KEEPING THE DIFFERENTIAL SECRET, SONATRACH RETAINS ITS ABILITY TO CUT PRICES WITHIN FAIRLY WIDE LIMITS AND STILL PLAUSIBLY CONTEND THAT IT IS RESPECTING THE NEW PRICE. HOW FAR THEY CAN PUCH THIS PLOY WITHOUT SERIOUS RECRIMINATIONS FROM THE LIMITED OFFICIAL USE

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OTHER MEMBERS OF THE OPEC MAJORITY REMAINS TO BE SEEN.

6. BAYOU DISPLAYED NONE OF THE BITTERNESS TOWARDS THE SAUDIS THAT INDUSTRY AND ENERGY MINISTER ABDESSELAM IS REPORTED TO HAVE SHOWN IN DOHA. LE MONDE OF DECEMBER 19-20 QUOTES HIM AS SAYING THAT IF SAUDIS RAISE PRODUCTION, ALGERIA WILL CONSIDER THAT SAUDIS HAVE COMMITTED AGGRESSION AGAINST OPEC. HE IS ALSO REPORTED TO HAVE SAID THAT IF DEMAND IS WEAK AFTER JULY 1 THEN OPEC WILL HAVE TO CONSIDER PRODUCTION CUTS AND THAT ALGERIA DECIDED LAST AUGUST TO GO FOR A 15 PERCENT INCREASE AT DOHA SINCE IT WAS CLEAR THEN THAT THE CIEC PARIS TALKS HAD FAILED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 23 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ALGIER02988
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760471-0229
From: ALGIERS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761215/aaaaamiq.tel
Line Count: 113
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2004 by BoyleJA>; APPROVED <02 AUG 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OIL PRICES
TAGS: EFIN, ENRG, AG, OPEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006